

**PRAIRIE VALLEY
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September, 2006 Election)		
Deb Doyen	President	2008
Dean Gleason	Vice President	2007
Tom Beacom		2006
Lynette Heatherington		2008
Ron Warrick	(Resigned August, 2006)	
Marshall Lambert		2007
Scott Hansch		2006

(After September, 2006 Election)		
Deb Doyen	President	2008
Dean Gleason	Vice President	2007
Clark Taylor		2007
Lynette Heatherington		2008
Rod Warehime		2009
Marshall Lambert		2007
Scott Hansch		2009

School Officials

James Dick	Superintendent
Erin Frahm	District Secretary/ Treasurer

BRUCE D. FRINK

Certified Public Accountant

Independent Auditor's Report

To the Board of Education of
Prairie Valley Community School District:

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Prairie Valley Community School District, Gowrie, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Prairie Valley Community School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2008 on our consideration of Prairie Valley Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Prairie Valley Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Bruce D. Frink". The signature is written in a cursive, flowing style.

BRUCE D. FRINK
Certified Public Accountant

March 21, 2008

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prairie Valley Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$6,334,171 in fiscal year 2006 to \$6,272,206 in fiscal year 2007, while General Fund expenditures increased from \$6,489,273 in fiscal year 2006 to \$6,675,390 in fiscal year 2007. The District's General Fund balance decreased from \$578,822 in fiscal year 2006 to \$175,638 in fiscal year 2007, a 69% decrease.
- The increase in expenses was due primarily to increases in payroll and benefits.
- Decreased revenues from state sources accounted for the majority of the decrease in revenues.
- The District's solvency ratio was 3% at the end of fiscal 2007. The solvency ratio is indicative of the District's ability to meet its financial obligations. This is a decrease of over 6% from the prior year.
- The District began to use its local option sales tax money for a variety of projects as well as property tax relief.
- Resident enrollment decreased by 13 students for a second straight year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Prairie Valley Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Prairie Valley Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Prairie Valley Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Prairie Valley Community School District Annual Financial Report

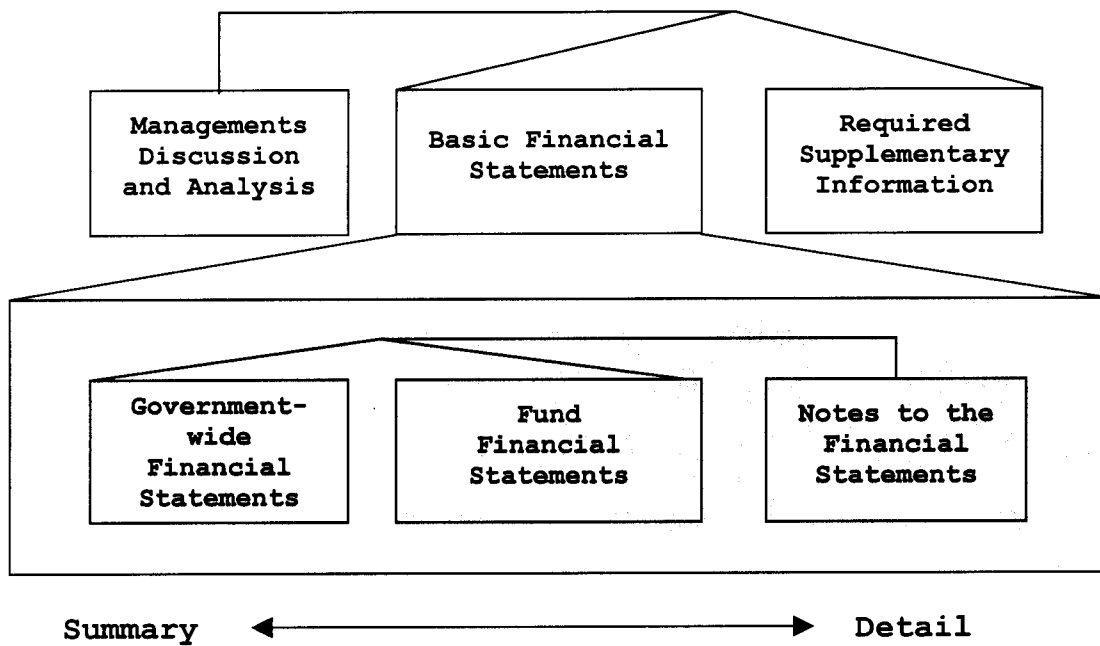


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds and the Debt Service Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a Statement of Net Assets, a statement of revenues, expenses, changes in net assets and a Statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	
Current assets	5,329	5,541	65	43	5,394	5,584	-3.40%
Capital assets	5,785	6,022	55	16	5,840	6,038	-3.28%
Total assets	<u>11,114</u>	<u>11,563</u>	<u>120</u>	<u>59</u>	<u>11,234</u>	<u>11,622</u>	<u>-3.34%</u>
Current liabilities	3,709	3,839	-	-	3,709	3,839	-3.39%
Non-current liabilities	685	1,060	-	-	685	1,060	-35.38%
Total liabilities	<u>4,394</u>	<u>4,899</u>	<u>-</u>	<u>-</u>	<u>4,394</u>	<u>4,899</u>	<u>-10.31%</u>
Net Assets							
Invested in capital assets, net of related debt	5,100	4,962	55	16	5,155	4,978	3.56%
Restricted	1,253	946	-	-	1,253	946	32.45%
Unrestricted	<u>367</u>	<u>756</u>	<u>65</u>	<u>43</u>	<u>432</u>	<u>799</u>	<u>-45.93%</u>
Total net assets	<u>6,720</u>	<u>6,664</u>	<u>120</u>	<u>59</u>	<u>6,840</u>	<u>6,723</u>	<u>1.74%</u>

The District's total net assets increased over 1% primarily as a result of an increase in the Capital Projects Fund. Unrestricted assets decreased as a result of a decrease in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4
Change in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	
Revenues:							
Program revenues:							
Charges for service and sales	272	326	249	215	521	541	-3.70%
Operating grants, contributions and restricted interest	1,062	947	140	142	1,202	1,089	10.38%
General revenues:							
Property tax	3,121	2,973	-	-	3,121	2,973	4.98%
Income surtax	224	217	-	-	224	217	3.23%
Local option sales tax	387	464	-	-	387	464	-16.59%
Unrestricted state grants	2,389	2,483	-	-	2,389	2,483	-3.79%
Unrestricted investment earnings	75	65	-	-	75	65	15.38%
Other	30	179	-	-	30	179	-83.24%
Total revenues	<u>7,560</u>	<u>7,654</u>	<u>389</u>	<u>357</u>	<u>7,949</u>	<u>8,011</u>	<u>-0.77%</u>
Program expenses:							
Governmental activities:							
Instruction	4,338	4,355	-	-	4,338	4,355	-0.39%
Support Services	2,276	2,194	-	-	2,276	2,194	3.74%
Non-instructional programs	-	-	328	359	328	359	-8.64%
Other expenses	890	635	-	-	890	635	40.16%
Total expenses	<u>7,504</u>	<u>7,184</u>	<u>328</u>	<u>359</u>	<u>7,832</u>	<u>7,543</u>	<u>3.83%</u>
Change in net assets	<u>56</u>	<u>470</u>	<u>61</u>	<u>(2)</u>	<u>117</u>	<u>468</u>	<u>-75.00%</u>

Property tax and unrestricted state grants account for 70% of the total revenue. The District's expenses primarily related to instruction and support services, which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,559,722 and expenses were \$7,503,523.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities
(Expressed in Thousands)

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
	\$	\$		\$	\$	
Instruction	4,338	4,355	-0.39%	3,313	3,359	-1.37%
Support Services	2,276	2,194	3.74%	2,266	2,184	3.75%
Other expenses	<u>890</u>	<u>635</u>	<u>40.16%</u>	<u>591</u>	<u>369</u>	<u>60.16%</u>
Totals	<u>7,504</u>	<u>7,184</u>	<u>4.45%</u>	<u>6,170</u>	<u>5,912</u>	<u>4.36%</u>

- The cost financed by users of the District's programs was \$271,497.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$478,220.
- The net cost of governmental activities was financed with \$3,121,602 in property tax, \$2,388,464 in state foundation aid, and \$74,889 in interest income.

PROPRIETARY-TYPE FUNDS

Revenues for the District's School Nutrition Fund were \$388,707 and expenses were \$327,893. The revenues include charges for services, contributions, and federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

The Prairie Valley Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$6,720,461, which is 1% greater than last year's ending fund balance of \$6,664,262.

Governmental Fund Highlights

Several factors contributed to the small increase of the fund balance in the District's governmental funds. Some of these factors were unexpected; some were deliberately planned.

- The District generates over \$380,000 in local option sales tax revenues. These monies are being used in part to offset debt service property tax askings.
- Discretionary costs were curtailed in order to maintain a positive financial position.
- State and Federal funding decreased in 2007. Alternative sources of revenues will continue to be needed.

Proprietary Fund Highlights

School Nutrition Fund net assets increased approximately \$60,000 in fiscal year 2007.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

It is the District's practice, as is in most Iowa school district, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District has invested more than \$5.8 million (net of accumulated depreciation) by the end of fiscal year 2007 in a broad range of capital assets, including school buildings, athletic facilities, kitchen, computers and audio-visual equipment, maintenance equipment, school buses and other vehicles, library holdings, and textbooks. The District made improvements and updated equipment at all three facilities during the year. Total depreciation expenses for the year exceeded \$376,000.

Long-Term Debt

The District had \$685,000 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of \$375,000 from the previous year. The principal and interest on the bonds will be paid in full by June 1, 2009. The District makes principal and interest payments annually on these bonds using property tax dollars obtained through a debt service levy specifically for these bonds. It also has used sales tax revenues to reduce property tax askings.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- Decreasing enrollment is going to have a negative effect on the General Fund.
- To offset the impact of declining enrollment, the State has provided a budget guarantee provision for districts. This budget guarantee provision is being phased out over a 10-year period. The District was on budget guarantee for fiscal year 2007 and will continue to be on budget guarantee for several years to come. Due to previous and continued declining enrollment, the amount of this reduction due to the phase out of the budget guarantee will likely grow over the next several years.
- The District will continue monitor payroll expenses as they account for the vast majority of the budget.
- Alternative sources must continue to be found due to funding inconsistencies on the parts of the federal and state governments.
- In June 2009, the District will complete its payment of its bonded indebtedness for the high school addition.
- The District will continue to be required to comply with unfunded and under funded mandates from the federal and state governments such as the Federal No Child Left Behind Act and the state Student Achievement and Teacher Quality Initiative. This will require the District to find ways to provide services in the areas of assessment and professional development, which will divert funds from other student service areas.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Erin Frahm, District Business Manager, Prairie Valley Community School District, PO Box 49, Gowrie, Iowa 50543.

Basic Financial Statements

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	1,826,961	43,313	1,870,274
Receivables:			
Property tax:			
Current year	41,460	-	41,460
Succeeding year	3,118,847	-	3,118,847
Income surtax - succeeding year	190,942	-	190,942
Due from other governments	150,661	-	150,661
Other receivables	-	26	26
Inventories	-	21,579	21,579
Capital assets, net of accumulated depreciation	5,785,348	54,902	5,840,250
Total assets	11,114,219	119,820	11,234,039
Liabilities			
Accounts payable	33,678	-	33,678
Accrued salaries and benefits	554,438	-	554,438
Accrued interest payable	1,795	-	1,795
Deferred revenue:			
Succeeding year property tax	3,118,847	-	3,118,847
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	385,000	-	385,000
Portion due after one year:			
General obligation bonds payable	300,000	-	300,000
Total liabilities	4,393,758	-	4,393,758
Net assets			
Invested in capital assets, net of related debt	5,100,348	54,902	5,155,250
Restricted for:			
Management levy	219,690	-	219,690
Student activities	26,121	-	26,121
Physical plant and equipment levy	38,481	-	38,481
Debt service	45,204	-	45,204
Capital projects	924,037	-	924,037
Unrestricted	366,580	64,918	431,498
Total net assets	6,720,461	119,820	6,840,281

See notes to financial statements.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Operating Grants, Contributions			
	Charges for Service	Interest	Governmental Activities	Business Type Activities
Expenses				Total
\$	\$	\$	\$	\$
4,337,638	271,497	753,045	(3,313,096)	(3,313,096)
Functions/Programs				
Governmental activities:				
Instruction:				
Support services:				
Student services	295,054	-	(295,054)	-
Instructional staff services	267,356	-	(267,356)	-
Administration services	534,203	-	(534,203)	-
Operation and maintenance of plant services	728,467	9,954	(718,513)	-
Transportation services	450,973	-	(450,973)	-
	2,276,053	9,954	(2,266,099)	(2,266,099)
Other expenditures:				
AEA flowthrough	241,023	241,023	-	-
Long-term debt services	400	-	(400)	(400)
Long-term debt interest	33,356	222	(33,134)	(33,134)
Facilities acquisition and construction	244,556	58,040	(186,516)	(186,516)
Depreciation (unallocated)*	370,497	-	(370,497)	(370,497)
	889,832	299,285	(590,547)	(590,547)
Total governmental activities	7,503,523	1,062,284	(6,169,742)	(6,169,742)

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Expenses				Total
\$	\$	\$	\$	\$
Business type activities:				
Non-instructional programs:				
Nutrition services	327,893	249,058	139,649	60,814
			-	60,814
Total	7,831,416	520,555	1,201,933	(6,108,928)
General revenues:				
Property tax levied for:				
General purposes			2,453,387	-
Management levy			227,062	-
Debt service			365,464	-
Capital outlay			75,689	-
Income surtax			224,012	-
Local option sales taxes			386,859	-
Unrestricted state grants			2,388,464	-
Unrestricted investment earnings			74,889	-
Other			30,115	-
Total general revenue			6,225,941	-
Change in net assets			56,199	60,814
Net assets beginning of year			6,664,262	59,006
Net assets end of year			6,720,461	119,820
				6,840,281

* This amount excludes the depreciation that is included in the direct expenses of the various programs.
See notes to financial statements.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	681,658	42,266	822,860	280,177	1,826,961
Receivables:					
Property tax:					
Current year	32,612	4,733	-	4,115	41,460
Succeeding year	2,414,187	356,845	-	347,815	3,118,847
Income surtax - succeeding year	190,942	-	-	-	190,942
Due from other governments	49,484	-	101,177	-	150,661
Total assets	<u>3,368,883</u>	<u>403,844</u>	<u>924,037</u>	<u>632,107</u>	<u>5,328,871</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	33,678	-	-	-	33,678
Accrued payroll and benefits	554,438	-	-	-	554,438
Deferred revenue:					
Succeeding year property tax	2,414,187	356,845	-	347,815	3,118,847
Succeeding year income surtax	190,942	-	-	-	190,942
Total liabilities	<u>3,193,245</u>	<u>356,845</u>	<u>-</u>	<u>347,815</u>	<u>3,897,905</u>
Fund balances:					
Reserved for debt service	-	46,999	-	-	46,999
Reserved for capital projects	-	-	924,037	-	924,037
Unreserved	175,638	-	-	284,292	459,930
Total fund balances	<u>175,638</u>	<u>46,999</u>	<u>924,037</u>	<u>284,292</u>	<u>1,430,966</u>
Total liabilities and fund balances	<u>3,368,883</u>	<u>403,844</u>	<u>924,037</u>	<u>632,107</u>	<u>5,328,871</u>

See notes to financial statements.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2007

Total fund balances of governmental funds (Exhibit C)	\$ 1,430,966
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2007 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	190,942
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,785,348
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(1,795)
Long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(685,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 6,720,461</u></u>

See notes to financial statements.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2007

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources					
Local tax	2,664,193	365,464	386,859	302,751	3,719,267
Tuition	271,497	-	-	-	271,497
Other	229,228	-	58,040	160,777	448,045
State sources	2,932,581	222	-	197	2,933,000
Federal sources	174,707	-	-	-	174,707
Total revenues	<u>6,272,206</u>	<u>365,686</u>	<u>444,899</u>	<u>463,725</u>	<u>7,546,516</u>
Expenditures:					
Current:					
Instruction:	<u>4,203,192</u>	<u>-</u>	<u>-</u>	<u>211,294</u>	<u>4,414,486</u>
Support services:					
Student services	295,054	-	-	-	295,054
Instructional staff services	267,356	-	-	-	267,356
Administration services	534,203	-	-	-	534,203
Operation and maintenance of plant services	645,669	-	-	82,798	728,467
Transportation services	488,893	-	-	19,130	508,023
	<u>2,231,175</u>	<u>-</u>	<u>-</u>	<u>101,928</u>	<u>2,333,103</u>
Other expenditures:					
AEA flowthrough	241,023	-	-	-	241,023
Long-term debt:					
Services	-	400	-	-	400
Principal	-	375,000	-	-	375,000
Interest	-	34,430	-	-	34,430
Facilities acquisition and construction	<u>-</u>	<u>-</u>	<u>217,750</u>	<u>26,806</u>	<u>244,556</u>
	<u>241,023</u>	<u>409,830</u>	<u>217,750</u>	<u>26,806</u>	<u>895,409</u>
Total expenditures	<u>6,675,390</u>	<u>409,830</u>	<u>217,750</u>	<u>340,028</u>	<u>7,642,998</u>

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Fund Types

Year ended June 30, 2007

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	<u>(403,184)</u>	<u>(44,144)</u>	<u>227,149</u>	<u>123,697</u>	<u>(96,482)</u>
Other financing sources (uses)					
Operating transfers in	-	40,000	-	-	40,000
Operating transfers (out)	<u>-</u>	<u>-</u>	<u>(40,000)</u>	<u>-</u>	<u>(40,000)</u>
	<u>-</u>	<u>40,000</u>	<u>(40,000)</u>	<u>-</u>	<u>-</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(403,184)	(4,144)	187,149	123,697	(96,482)
Fund balances beginning of year	<u>578,822</u>	<u>51,143</u>	<u>736,888</u>	<u>160,595</u>	<u>1,527,448</u>
Fund balances end of year	<u>175,638</u>	<u>46,999</u>	<u>924,037</u>	<u>284,292</u>	<u>1,430,966</u>

See notes to financial statements.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities

Year ended June 30, 2007

Net change in fund balances - total governmental funds (Exhibit E) \$ (96,482)

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Income surtaxes not collected until more than 60 days after the District's fiscal year ends are not considered "available" in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities. 13,206

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	133,898
Depreciation expense	(370,497)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 375,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,074

Change in net assets of governmental activities (Exhibit B) \$ 56,199

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund

Year ended June 30, 2007

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>249,058</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	124,169
Benefits	22,710
Services	3,926
Supplies	171,122
Depreciation	<u>5,966</u>
Total operating expenses	<u>327,893</u>
Operating (loss)	<u>(78,835)</u>
Non-operating revenues:	
State sources	4,398
Federal sources	<u>135,251</u>
	<u>139,649</u>
Changes in net assets	60,814
Net assets beginning of year	<u>59,006</u>
Net assets end of year	<u><u>119,820</u></u>

See notes to financial statements.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2007

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	249,032
Cash payments to employees for services	(146,879)
Cash payments to suppliers for goods or services	(177,820)
Net cash (used in) operating activities	(75,667)
Cash flows from non-capital financing activities:	
State grants received	4,398
Federal grants received	116,157
Net cash provided by non-capital financing activities	120,555
Cash flows from capital financing activities:	
Acquisition of capital assets	(44,688)
Net increase in cash and cash equivalents	200
Cash and cash equivalents beginning of year	43,113
Cash and cash equivalents end of year	43,313
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(78,835)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	5,966
Commodities used	19,094
(Increase) in other receivables	(26)
(Increase) in inventory	(21,579)
(Decrease) in accounts payable	(287)
	(75,667)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	43,313

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received federal commodities valued at \$19,094.

See notes to financial statements.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2007

	Private Purpose Trusts
	<u>Scholarships</u>
	\$
Assets	
Cash	<u>12,969</u>
Total assets	<u>12,969</u>
Net Assets	
Reserved for scholarships	<u>12,969</u>
Total net assets	<u><u>12,969</u></u>

See notes to financial statements.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2007

	Private Purpose Trusts
	<u>Scholarships</u>
	\$
Additions:	
Local sources:	
Miscellaneous	<u>9,669</u>
Total additions	<u>9,669</u>
Deductions:	
Support services:	
Scholarships	<u>9,353</u>
Total deductions	<u>9,353</u>
Change in net assets	316
Net assets beginning of year	<u>12,653</u>
Net assets end of year	<u><u>12,969</u></u>

See notes to financial statements.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

Prairie Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Gowrie, Somers, Farnhamville, Callender and Rinard, Iowa, and agricultural area in Calhoun, Greene and Webster Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Prairie Valley Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Prairie Valley Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Webster County Assessor Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used for scholarship payments.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2007.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures exceeded the amount budgeted in the support services function.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2007.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	134,054	-	-	134,054
Capital assets being depreciated:				
Land improvements	374,283	-	-	374,283
Buildings	9,383,943	-	-	9,383,943
Furniture and equipment	2,943,931	133,898	-	3,077,829
Total capital assets being depreciated	12,702,157	133,898	-	12,836,055
Less accumulated depreciation for:				
Land improvements	350,512	14,971	-	365,483
Buildings	4,009,610	187,679	-	4,197,289
Furniture and equipment	2,454,142	167,847	-	2,621,989
Total accumulated depreciation	6,814,264	370,497	-	7,184,761
Total capital assets being depreciated, net	5,887,893	(236,599)	-	5,651,294
Governmental activities, capital assets, net	6,021,947	(236,599)	-	5,785,348

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	99,141	44,688	-	143,829
Less accumulated depreciation	<u>82,961</u>	<u>5,966</u>	<u>-</u>	<u>88,927</u>
Business type activities capital assets, net	<u>16,180</u>	<u>38,722</u>	<u>-</u>	<u>54,902</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Unallocated	<u>370,497</u>
	<u>370,497</u>

Business Type activities:

Food service operations	<u>5,966</u>
-------------------------	--------------

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll, for the years ending June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$231,577, \$211,113, and \$202,839 respectively, equal to the required contributions for each year.

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2007 is as follows:

	General Obligation Bonds
Balance beginning of year	\$1,060,000
Additions	-
Reductions	<u>375,000</u>
Balance end of year	<u>\$ 685,000</u>

(6) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$241,023 for year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(7) Bonds Payable

Details of the District's June 30, 2007 bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates %	<u>Bond Issue as of May 1, 2001</u>		
		<u>Interest</u>	<u>Principal</u>	<u>Total</u>
		\$	\$	\$
2008	3.45-3.65	21,545	385,000	406,545
2009	3.65-3.85	<u>7,500</u>	<u>300,000</u>	<u>307,500</u>
Total		<u>29,045</u>	<u>685,000</u>	<u>714,045</u>

(8) Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Required Supplementary Information

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund
Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Types	Proprietary Fund Type	Total Actual	Budgeted Amounts		Final to Actual Variance -
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	4,438,809	249,058	4,687,867	4,213,524	4,213,524	474,343
State sources	2,933,000	4,398	2,937,398	3,098,576	3,098,576	(161,178)
Federal sources	174,707	135,251	309,958	225,000	225,000	84,958
Total revenues	<u>7,546,516</u>	<u>388,707</u>	<u>7,935,223</u>	<u>7,537,100</u>	<u>7,537,100</u>	<u>398,123</u>
Expenditures:						
Instruction	4,414,486	-	4,414,486	5,543,443	5,543,443	1,128,957
Support services	2,333,103	-	2,333,103	2,093,081	2,093,081	(240,022)
Non-instructional programs	-	327,893	327,893	331,954	331,954	4,061
Other expenditures	895,409	-	895,409	1,015,915	1,015,915	120,506
Total expenditures	<u>7,642,998</u>	<u>327,893</u>	<u>7,970,891</u>	<u>8,984,393</u>	<u>8,984,393</u>	<u>1,013,502</u>
Excess (deficiency) of revenues over (under) expenditures	(96,482)	60,814	(35,668)	(1,447,293)	(1,447,293)	1,411,625
Other financing sources (uses)	-	-	-	19,500	19,500	(19,500)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(96,482)	60,814	(35,668)	(1,427,793)	(1,427,793)	1,392,125
Balance beginning of year	<u>1,527,448</u>	<u>59,006</u>	<u>1,586,454</u>	<u>1,565,039</u>	<u>1,565,039</u>	<u>21,415</u>
Balance end of year	<u><u>1,430,966</u></u>	<u><u>119,820</u></u>	<u><u>1,550,786</u></u>	<u><u>137,246</u></u>	<u><u>137,246</u></u>	<u><u>1,413,540</u></u>

See accompanying independent auditor's report.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures exceeded the amount budgeted in the support services function. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	216,584	26,121	37,472	280,177
Property tax receivable:				
Current year	3,106	-	1,009	4,115
Succeeding year	280,000	-	67,815	347,815
	<u>499,690</u>	<u>26,121</u>	<u>106,296</u>	<u>632,107</u>
Total assets				
	<u>499,690</u>	<u>26,121</u>	<u>106,296</u>	<u>632,107</u>
Liabilities and Fund Balance				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	280,000	-	67,815	347,815
	<u>280,000</u>	<u>-</u>	<u>67,815</u>	<u>347,815</u>
Fund balance:				
Unreserved fund balance	219,690	26,121	38,481	284,292
	<u>219,690</u>	<u>26,121</u>	<u>38,481</u>	<u>284,292</u>
Total liabilities and fund balance	<u>499,690</u>	<u>26,121</u>	<u>106,296</u>	<u>632,107</u>

See accompanying independent auditor's report.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2007

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	227,062	-	75,689	302,751
Other	9,757	151,020	-	160,777
State sources	149	-	48	197
Total revenues	<u>236,968</u>	<u>151,020</u>	<u>75,737</u>	<u>463,725</u>
Expenditures:				
Instruction:	62,873	148,421	-	211,294
Support services:				
Plant operation and maintenance	38,817	-	43,981	82,798
Student transportation	19,130	-	-	19,130
Other expenditures				
Facilities acquisition and construction	-	-	26,806	26,806
Total expenditures	<u>120,820</u>	<u>148,421</u>	<u>70,787</u>	<u>340,028</u>
Excess (deficiency) of revenues over (under) expenditures	116,148	2,599	4,950	123,697
Fund balances beginning of year	<u>103,542</u>	<u>23,522</u>	<u>33,531</u>	<u>160,595</u>
Balance end of year	<u>219,690</u>	<u>26,121</u>	<u>38,481</u>	<u>284,292</u>

See accompanying independent auditor's report.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Interest	6,371	-	6,371	-
Athletics	(2,132)	52,353	42,635	7,586
Athletic Resale	3,794	-	3,794	-
Cheerleaders	(5,665)	16,885	6,684	4,536
Class of 2005	164	-	164	-
Class of 2006	(3,064)	3,064	-	-
Class of 2007	1,730	-	1,730	-
Class of 2008	-	9,683	6,989	2,694
Class of 2011	-	50	50	-
Drill Team	258	3,139	2,244	1,153
Dramatics	4,470	1,378	5,648	200
FFA	1,874	17,775	17,754	1,895
FCCLA	501	1,319	523	1,297
Instrumental	3,243	7,877	10,463	657
HS Student Council	488	14,894	12,858	2,524
Tri M	823	795	941	677
Vocal Music	4,438	9,513	13,053	898
Yearbook	3,732	10,179	13,061	850
MS Student Council	2,497	2,116	3,459	1,154
Total	23,522	151,020	148,421	26,121

See accompanying independent auditor's report.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Private Purpose Trusts

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Belle Erickson Scholarship	3,350	83	83	3,350
William Johnson Scholarship	4,437	864	150	5,151
Evans Scholarship	200	-	200	-
George Larson Scholarship	599	4,775	5,000	374
Administration Scholarship	12	-	-	12
Michelle Gibson Scholarship	-	100	100	-
Nels Lindquist Scholarship	-	750	695	55
Cone Scholarship	38	2,962	3,000	-
Lucile Swensen Scholarship	4,017	135	125	4,027
Total	12,653	9,669	9,353	12,969

See accompanying independent auditor's report.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

	Years ended June 30,			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	3,719,267	3,650,440	3,204,132	3,474,650
Tuition	271,497	325,919	337,496	284,911
Other	448,045	465,189	300,843	344,411
State sources	2,933,000	3,033,541	3,080,538	2,782,777
Federal sources	174,707	175,394	192,841	215,793
	<u>7,546,516</u>	<u>7,650,483</u>	<u>7,115,850</u>	<u>7,102,542</u>
Expenditures:				
Instruction	4,414,486	4,355,134	4,175,869	4,249,556
Support services:				
Student services	295,054	257,714	217,938	227,298
Instructional staff services	267,356	276,775	271,524	325,358
Administration services	534,203	551,462	452,591	555,946
Operation and maintenance of plant services	728,467	756,911	659,980	667,727
Transportation services	508,023	483,942	407,869	391,701
Central support services	-	-	-	11,763
Non-instructional programs	-	-	-	3,358
Other expenditures:				
Facilities acquisition	244,556	47,524	345,857	217,662
Debt service:				
Principal	375,000	360,000	350,000	340,000
Interest and services	34,830	46,658	57,543	67,163
AEA flowthrough	241,023	231,059	233,255	235,690
	<u>7,642,998</u>	<u>7,367,179</u>	<u>7,172,426</u>	<u>7,293,222</u>

See accompanying independent auditor's report.

BRUCE D. FRINK

Certified Public Accountant

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of
Prairie Valley Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Prairie Valley Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 21, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Prairie Valley Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Prairie Valley Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Prairie Valley Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Prairie Valley Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Prairie Valley Community School District's financial statements that is more than inconsequential will not be prevented or detected by Prairie Valley Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Prairie Valley Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item 07-I-A to be a material weakness.

Compliance and Other Matters

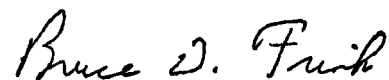
As part of obtaining reasonable assurance about whether Prairie Valley Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Prairie Valley Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Prairie Valley Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Prairie Valley Community School District and other parties to whom Prairie Valley Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Prairie Valley Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



BRUCE D. FRINK
Certified Public Accountant

March 21, 2008

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

07-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Required Statutory Reporting:

07-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2007.

07-II-B Certified Budget - Expenditures for the year ended June 30, 2007, exceeded the amount budgeted in the support services function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

07-II-C Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

07-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

PRAIRIE VALLEY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 07-II-E Business Transactions - No business transactions between the District and District officials or employees are were noted.
- 07-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 07-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 07-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 07-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 07-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.